



CALEDONIA COMMUNITY SCHOOLS

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

FOR THE YEAR ENDED JUNE 30, 2005

CALEDONIA COMMUNITY SCHOOLS

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**CALEDONIA COMMUNITY SCHOOLS
ADMINISTRATIVE PERSONNEL
YEAR ENDED JUNE 30, 2005**

SCHOOL BOARD MEMBERS

Dennis Atkinson	President
Robert Lillie	Vice-President
Bernard Nagel	Secretary
Ken Yonker	Treasurer
Robert Bergy	Trustee
Kristy Anne Sherlund	Trustee
Debra McCarty	Trustee

SUPERINTENDENT

Wes VanDenburg



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

September 14, 2005

Board of Education
Caledonia Community Schools
Caledonia, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **CALEDONIA COMMUNITY SCHOOLS**, as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Caledonia Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

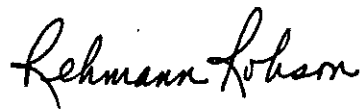
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Caledonia Community Schools as of June 30, 2005, and the respective changes in financial position, and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2005 on our consideration of Caledonia Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Caledonia Community Schools' basic financial statements. The combining and individual nonmajor fund financial statements and schedules, and the schedule of expenditures of federal awards are presented for purposes of additional analysis and are not a required part of Caledonia Community Schools' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehmann Lohman". The signature is written in dark ink and is centered on the page.

Management's Discussion and Analysis

As management of Caledonia Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005.

Financial Highlights

- State aid increased as a result of the addition of 94 new students in the District.
- The newly constructed high school was occupied for the first time in the fall of 2004.
- The middle school project was completed for the 2004-2005 school year.
- Renovation of the old middle school including administrative offices allowed for the sale of the downtown administration building.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements including budgetary schedules and combining statements for non-major and fiduciary funds.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated leave).

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The activities of the District include instruction, supporting services, food services, athletics, child care and community services. The District has no business-type activities as of and for the year ended June 30, 2005.

The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District fall within the governmental and fiduciary fund type category.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains thirteen individual governmental and one agency funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and 2000 Bond capital projects fund which are considered to be a major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The governmental fund financial statements can be found on pages 12-16 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Caledonia Community Schools' own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 17 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-30 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 31-39 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$1,530,500 at the close of the most recent fiscal year. The timing of debt service payments and depreciation expense of fixed assets has a significant impact on this balance.

A large portion of the District's net assets is restricted for capital projects and represents interest on Bond proceeds \$(2,913,901). Deficits are reported for both investment in capital assets net of related debt as well as unrestricted net assets. The deficit balance is reported primarily due to interest accruing on capital appreciation bonds.

Caledonia Community School's Net Assets

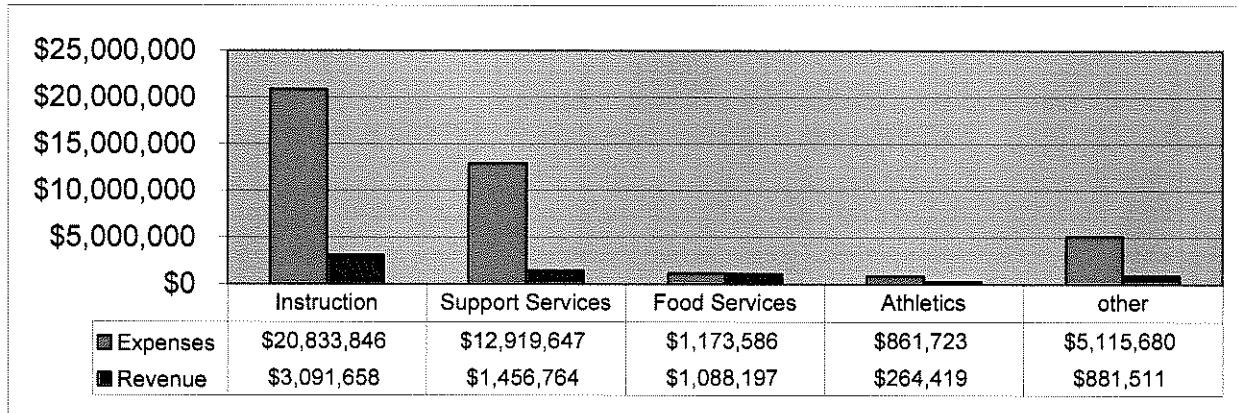
	2004-2005 Governmental Activities	2003-2004 Governmental Activities
Current and other assets	\$11,113,063	\$25,844,163
Capital assets, net	<u>95,803,181</u>	<u>86,142,063</u>
Total assets	<u>106,916,244</u>	<u>111,986,226</u>
Current liabilities	12,623,134	14,936,184
Long-term liabilities outstanding	<u>95,823,610</u>	<u>98,789,021</u>
Total liabilities	<u>108,446,744</u>	<u>113,725,205</u>
Net assets:		
Invested in capital assets, net of related debt	(1,932,193)	(5,796,267)
Restricted	2,913,901	7,600,834
Unrestricted	<u>(2,512,208)</u>	<u>(3,543,546)</u>
Total net assets	<u>\$(1,530,500)</u>	<u>\$(1,738,979)</u>

Caledonia Community School's Changes in Net Assets

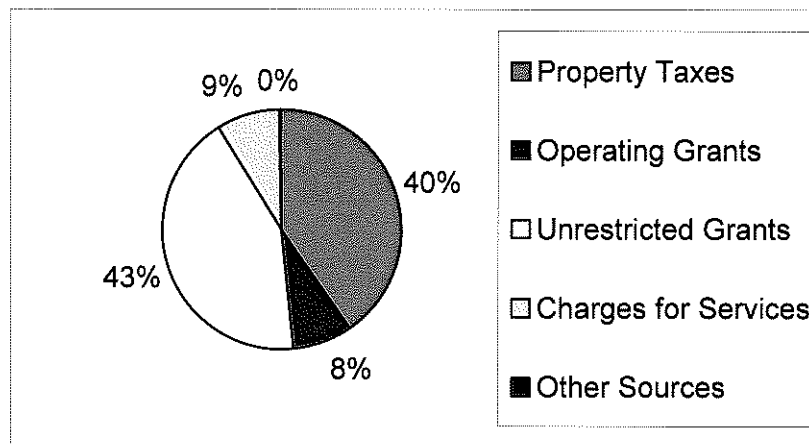
	2005 Governmental Activities	2004 Governmental Activities
Program revenue:		
Charges for services	\$ 3,608,559	\$ 3,564,309
Operating grants and contributions	3,258,199	3,014,633
General revenue:		
Property taxes - operations	9,085,881	7,899,982
Property taxes - debt service	7,504,328	6,817,382
Grants and contributions not restricted to specific programs	17,591,022	17,636,034
Unrestricted investment earnings	<u>64,972</u>	<u>37,885</u>
Total revenue	<u>41,112,961</u>	<u>38,970,225</u>
Expenses:		
Instruction	20,833,846	19,327,383
Supporting services	12,919,647	11,498,412
Food services	1,173,586	1,081,087
Athletics	861,723	610,460
Child care	676,651	519,259
Community Service	201,115	-
Interest on long-term debt	<u>4,237,914</u>	<u>5,749,846</u>
Total expenses	<u>40,904,482</u>	<u>38,786,447</u>
Increase in net assets	208,479	183,778
Net assets (deficit), beginning of year	<u>(1,738,979)</u>	<u>(1,922,757)</u>
Net assets (deficit), end of year	<u>\$(1,530,500)</u>	<u>\$(1,738,979)</u>

Governmental activities. Net assets increased by \$208,479. Key elements of this increase are as follows:

Expenses and Program Revenues – Government-wide



Revenues by Source – Government-wide



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved undesignated and total fund balance of the general fund was \$3,496,857. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved undesignated fund balance and total fund balance represent 11% percent respectively of total general fund expenditures and transfers out.

The fund balance of the District's general fund decreased by \$276,972 during the current fiscal year.

The 2000 Bonds capital projects fund decreased substantially due to the construction activity for which the 2000 bonds were issued

General Fund Budgetary Highlights

Differences between the original and final amended budgets were relatively minor and related primarily to changes to state and local revenue due to increased pupil counts and property tax revenue.

Capital Asset and Debt Administration

- **Capital assets** – The District's investment in capital assets for its governmental type activities as of June 30, 2005 amounted to \$95,803,181 (net of accumulated depreciation). This investment in capital assets included land, buildings, vehicles and equipment.

Major capital assets added during the current fiscal year included the new High School:

Caledonia Community School's Capital Assets

(net of depreciation)

June 30, 2005

Land	\$ 1,490,560
Construction in progress	317,930
Buildings and improvements	81,123,244
Machinery and equipment	11,144,190
Vehicles	<u>1,727,257</u>
Total	<u>\$95,803,181</u>

Additional information on the District's capital assets can be found in Note 5 on page 25 of this report.

Long-term debt. At the end of the current fiscal year, the District had total debt outstanding of \$99,525,688.

The District's total bonded debt increased by \$1,680,662 during the current fiscal year including additions to the school bond loan debt.

Additional information on the District's long-term debt can be found in Note 7 on pages 27 and 28 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2005-2006 fiscal year:

- An increasing pupil count was used because of the growth in the area (average 80 students).
- A \$175 increase in the state foundation grant per student.
- Teachers at the secondary level donated 23 minutes of planning time for instructional time for two years out. This generated a savings of 6.5 teachers that did not have to be hired.
- Wage, retirement and insurance costs were budgeted according to negotiated contracts..

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

James Oleson
Supervisor of Accounting Services
Caledonia Community Schools
203 E. Main Street
Caledonia, MI 49316

Caledonia Community Schools
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 1,192,692
Investments	5,993,437
Receivables	
Accounts	3,873,700
Inventories	53,234
Total current assets	<u>11,113,063</u>
Noncurrent assets	
Land	1,490,560
Construction in progress	317,930
Capital assets	119,443,564
Less accumulated depreciation	<u>(25,448,873)</u>
Total noncurrent assets	<u>95,803,181</u>
 Total assets	 <u>106,916,244</u>
Liabilities	
Current liabilities	
Accounts payable	1,722,852
Accrued expenses	7,191,074
Due to other governmental units	576,053
Unearned revenue	80,712
Current portion of long-term debt	<u>3,052,443</u>
Total current liabilities	<u>12,623,134</u>
Noncurrent liabilities	
Long term compensated absences/early retirement	934,245
Non-current portion of long-term debt	<u>94,889,365</u>
Total noncurrent liabilities	<u>95,823,610</u>
 Total liabilities	 <u>108,446,744</u>
Net assets (deficit)	
Invested in capital assets, net of related debt	(1,932,193)
Restricted for capital projects	2,913,901
Unrestricted (deficit)	<u>(2,512,208)</u>
 Total net assets (deficit)	 <u><u>\$ (1,530,500)</u></u>

The accompanying notes are an integral part of these financial statements.

Caledonia Community Schools

Statement of Activities

For the Year Ended June 30, 2005

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Instruction	\$ 20,833,846	\$ 53,892	\$ 3,037,766	\$ -	\$ (17,742,188)
Supporting services	12,919,647	1,449,660	7,104	-	(11,462,883)
Food services	1,173,586	959,077	213,329	-	(1,180)
Athletics	861,723	264,419	-	-	(597,304)
Child care	676,651	658,457	-	-	(18,194)
Community services	201,115	223,054	-	-	21,939
Interest on long-term debt	4,237,914	-	-	-	(4,237,914)
Total governmental activities	\$ 40,904,482	\$ 3,608,559	\$ 3,258,199	\$ -	(34,037,724)
General revenues					
Property taxes - operations					9,085,881
Property taxes - debt service					7,504,328
Grants and contributions not restricted to specific programs					17,591,022
Unrestricted investment earnings					64,972
Total general revenues					34,246,203
Change in net assets					208,479
Net assets, beginning of year, as restated					(1,738,979)
Net assets, end of year					\$ (1,530,500)

The accompanying notes are an integral part of these financial statements.

Caledonia Community Schools
Balance Sheet
Governmental Funds
June 30, 2005

	<u>General</u>	<u>Capital Projects 2000 Bonds</u>	<u>Non- Major Funds</u>	<u>Total</u>
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 452,833	\$ -	\$ 739,859	\$ 1,192,692
Investments	1,994,649	3,998,788	-	5,993,437
Due from other funds	114,444	-	48,176	162,620
Due from other governmental units	3,820,106	-	53,594	3,873,700
Inventory	36,535	-	16,699	53,234
<u>TOTAL ASSETS</u>	<u>\$ 6,418,567</u>	<u>\$ 3,998,788</u>	<u>\$ 858,328</u>	<u>\$ 11,275,683</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities				
Accounts payable	\$ 585,786	\$ 1,084,887	\$ 52,179	\$ 1,722,852
Accrued expenses	1,723,388	-	-	1,723,388
Due to other funds	30,393	-	132,227	162,620
Due to other governments	576,053	-	-	576,053
Deferred revenue	6,090	-	74,622	80,712
Total liabilities	<u>2,921,710</u>	<u>1,084,887</u>	<u>259,028</u>	<u>4,265,625</u>
Fund equity				
Fund balances:				
Reserved				
Debt service	-	-	387,393	387,393
Capital projects	-	2,913,901	-	2,913,901
Unreserved				
Undesignated special revenue funds	-	-	211,907	211,907
Undesignated general fund	3,496,857	-	-	3,496,857
Total fund equity	<u>3,496,857</u>	<u>2,913,901</u>	<u>599,300</u>	<u>7,010,058</u>
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$ 6,418,567</u>	<u>\$ 3,998,788</u>	<u>\$ 858,328</u>	<u>\$ 11,275,683</u>

The accompanying notes are an integral part of these financial statements.

Caledonia Community Schools
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2005

Fund balances - total governmental funds	\$ 7,010,058
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	121,252,054
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Deduct - accumulated depreciation	(25,448,873)
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds & contract payables	(98,385,009)
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Deduct - accrued interest on bonds payable	(5,467,686)
--	-------------

Deduct - compensated absences & retirement incentive	(1,140,679)
--	-------------

Add - deferred debt issuance costs, premiums and discounts	<u>649,635</u>
--	----------------

Net assets of governmental activities	<u><u>\$ (1,530,500)</u></u>
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The accompanying notes are an integral part of these financial statements.

Caledonia Community Schools
Statement of Revenues, Expenditures
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	<u>General</u>	<u>Capital Projects 2000 Bonds</u>	<u>Non- Major Funds</u>	<u>Total</u>
Revenue				
Local sources	\$ 11,074,139	\$ 607,006	\$ 9,589,077	\$ 21,270,222
State sources	18,558,878	-	42,935	18,601,813
Federal sources	781,977	-	213,329	995,306
Total revenue	<u>30,414,994</u>	<u>607,006</u>	<u>9,845,341</u>	<u>40,867,341</u>
Expenditures				
Current				
Instruction	19,232,741	-	-	19,232,741
Supporting services	11,240,187	-	328,227	11,568,414
Food services	-	-	1,173,586	1,173,586
Athletics	-	-	721,429	721,429
Child care	-	-	676,651	676,651
Community services	-	-	201,115	201,115
Capital outlay	-	13,296,090	-	13,296,090
Debt service				
Payment to refunding escrow	-	-	1,022,000	1,022,000
Principal	-	-	2,782,343	2,782,343
Interest	4,446	-	4,412,110	4,416,556
Total expenditures	<u>30,477,374</u>	<u>13,296,090</u>	<u>11,317,461</u>	<u>55,090,925</u>
Revenue over (under) expenditures	<u>(62,380)</u>	<u>(12,689,084)</u>	<u>(1,472,120)</u>	<u>(14,223,584)</u>
Other financing sources (uses)				
Bond issue	-	-	38,776,681	38,776,681
Premium on bond issue	-	-	1,998,177	1,998,177
Transfers in	-	-	461,060	461,060
Sale of fixed assets	245,620	-	-	245,620
Payment to refunding escrow	-	-	(39,586,025)	(39,586,025)
Transfers out	(460,212)	-	(848)	(461,060)
Total other financing sources (uses)	<u>(214,592)</u>	<u>-</u>	<u>1,649,045</u>	<u>1,434,453</u>
Net changes in fund balances	<u>(276,972)</u>	<u>(12,689,084)</u>	<u>176,925</u>	<u>(12,789,131)</u>
Fund balance, beginning of year	<u>3,773,829</u>	<u>15,602,985</u>	<u>422,375</u>	<u>19,799,189</u>
Fund balance, end of year	<u>\$ 3,496,857</u>	<u>\$ 2,913,901</u>	<u>\$ 599,300</u>	<u>\$ 7,010,058</u>

The accompanying notes are an integral part of these financial statements.

Caledonia Community Schools
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2005

Net change in fund balances - total governmental funds	\$ (12,789,131)
--	-----------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	13,295,335
Deduct - depreciation expense	(3,313,099)
Deduct - disposal of capital assets	(321,118)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Add - amortization of bond discounts & issuance costs	(34,191)
---	----------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but a reduction in long-term debt on the statement of net assets.

Add - principal payments on long-term liabilities	40,548,388
Add - debt issuance costs, discounts and premiums	1,263,075
Deduct - debt issued	(38,776,681)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds	212,833
Add - decrease in the long-term portion of accrual for retirement incentive	342,303
Deduct - increase in the accrual for compensated absences	(219,235)

Change in net assets of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; padding: 2px 0;">\$ 208,479</div>
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The accompanying notes are an integral part of these financial statements.

Caledonia Community Schools
Statement of Revenue, Expenditures
and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended June 30, 2005

	Budget			Variance -
	Original	Amended	Actual	Positive
				(Negative)
Revenue				
Local sources	\$ 10,542,040	\$ 10,953,300	\$ 11,074,139	\$ 120,839
State sources	18,578,537	18,661,974	18,558,878	(103,096)
Federal sources	764,927	766,931	781,977	15,046
Total revenue	29,885,504	30,382,205	30,414,994	32,789
Expenditures				
Current:				
Instructional	18,158,574	19,143,596	19,232,741	(89,145)
Supporting services	12,390,115	11,199,327	11,240,187	(40,860)
Debt service				
Interest	5,000	5,000	4,446	554
Total expenditures	30,553,689	30,347,923	30,477,374	(129,451)
Revenue over (under) expenditures	(668,185)	34,282	(62,380)	(96,662)
Other financing sources (uses)				
Sale of fixed assets	10,500	248,300	245,620	(2,680)
Transfers out	-	(449,404)	(460,212)	(10,808)
Total other financing sources (uses)	10,500	(201,104)	(214,592)	(13,488)
Net changes in fund balance	(657,685)	(166,822)	(276,972)	(110,150)
Fund balance, beginning of year	3,773,829	3,773,829	3,773,829	-
Fund balance, end of year	\$ 3,116,144	\$ 3,607,007	\$ 3,496,857	\$ (110,150)

The accompanying notes are an integral part of these financial statements.

Caledonia Community Schools
Statement of Fiduciary Net Assets
Agency Funds
June 30, 2005

	<u>Student Activities</u>
Assets	
Cash and cash equivalents	<u>\$ 424,390</u>
Total Assets	<u><u>\$ 424,390</u></u>
Liabilities	
Due to student groups	<u>\$ 424,390</u>
Total Liabilities	<u><u>\$ 424,390</u></u>

The accompanying notes are an integral part of these financial statements.

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of the Caledonia Community Schools (the "School" or "District") consistently applied in the preparation of the accompanying financial statements follows.

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the reporting entity of the Caledonia Community Schools. The criteria identified in GASB Statements 14 and 39, including financial accountability, have been utilized when identifying the School reporting entity which includes no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2005.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency fund was the accrual basis of accounting, but does not have a measurement focus.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Property taxes, expenditure driven grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the district.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects 2000 bonds fund* accounts for the construction of major capital projects, which are primarily funded by resources provided by the bonds issued during 2000.

Additionally, the government reports the following fund types:

The *special revenue funds* account for assets which are restricted for specific purposes.

The *debt service fund* accounts for property tax and servicing of bonded debt.

The *fiduciary fund* accounts for resources held on the behalf of other individuals and governments.

Private – sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Budgets and Budgetary Accounting

The School follows these procedures in establishing the budgetary data as reflected in the financial statements.

Budgets are adopted for general and special revenue funds as required by state law and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The School considers the debt service payment schedule to be an adequate budgetary control. The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
5. Adoption and amendments of all budgets used by the School are governed by Public Act 621, which was followed for the year ended June 30, 2005. Expenditures may not exceed appropriations at the function level. The appropriations resolutions are based on the projected expenditures budget of the department heads of the School. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the School Board.

Encumbrances

The School does not formally record encumbrances in the accounting records during the year as a normal practice. Appropriations lapse at year-end and amounts are reappropriated for expenditures to be incurred in the next fiscal year.

Property Taxes

Property taxes are recognized as revenue in the General and Debt Service funds on a levy year basis. The 2004 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within sixty days after year-end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues in the year collected. Property taxes are levied December 1 on the assessed valuation of property located in the School as of the preceding December 31, the lien date. Assessed values are established annually by the various governmental units within the School and are equalized by the State of Michigan.

Cash and Cash Equivalents

The School considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

Inventories

Inventories consist of food commodities and other supplies. Inventories are stated at cost (first-in, first-out).

Investments

Michigan law authorizes the District to deposit and invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

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- b. Certificates of deposits issued by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
 - c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
 - d. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
 - e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
 - f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

Receivables

The School follows the practice of recording as receivables revenues that have been earned but not yet received.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	7-50
Machinery and equipment	5-20
Vehicles	12

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Accrued Expenses

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the School who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The School pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are capitalized and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Vested Termination Benefits

Most employees of the School are compensated for leaves of absences chargeable to sick days. Each school year, the covered employees are credited with a number of sick days and any unused portion of such allowances can accumulate. Upon retirement, those employees who meet certain age and years of service requirements will be paid for a portion of sick days accumulated to a maximum number of days and at a rate determined by their job category.

The liability for the sick leave has been computed using the vesting method in accordance with Governmental Accounting Standards Board Statement No. 16. This liability is shown on the statement of net assets.

Reserves and Designations of Fund Balance/Restricted Net Assets

Reservations of fund balance are established to identify (1) third party claims against resources of the entity that have not materialized as liabilities at the balance sheet date, or (2) the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, or (3) the existence of assets that are legally restricted to a future use.

Restricted net assets represent assets which are legally restricted by outside parties or enabling legislation.

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Interfund Transactions

During the course of normal operations, the School has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the School.

2. STATE OF MICHIGAN SCHOOL AID

The School reports State of Michigan school aid in the fiscal year in which the School is entitled to the revenue as provided by State of Michigan School aid appropriation acts. State funding provided 61% of general fund revenue to the District during the 2005 fiscal year.

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2005 the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Major Fund			
General Fund			
Basic Programs	\$14,995,716	\$15,030,989	\$(35,273)
Added needs	3,935,225	3,987,263	(52,038)
Alternative education	212,655	214,489	(1,834)
Pupil Services	446,626	446,702	(76)
General Administration	592,524	617,073	(24,549)
School Administration	2,146,128	2,254,337	(108,209)
Pupil Transportation	1,981,987	2,000,863	(18,876)
Transfers out	449,404	460,212	(10,808)
Non Major Funds			
Athletics Fund			
Support services	652,050	716,774	(4,655)
Community Services			
Support services	-	201,115	(201,115)

4. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and cash equivalents are as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Activities</u>	<u>Total</u>
Cash and cash equivalents	\$1,192,692	\$424,390	\$1,617,082
Investments	5,993,437	-	5,993,437
	<u>\$7,186,129</u>	<u>\$424,390</u>	<u>\$7,610,519</u>

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

These deposits are in two (2) financial institutions located in Michigan. State policy limits the School's deposit options to financial institutions located in Michigan. All accounts are in the name of the School and a specific fund or common account. They are recorded in School records at fair value.

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had the following deposits and investments:

Investments

	Maturity	Fair Value	Rating
MILAF Cash Management Funds	N/A	\$5,931,796	AAAm
Standard Federal Public Funds Investment Trust	N/A	\$2,712	AAAm

The above investments do not include certificates of deposit or various other deposits which are classified as investments for financial statement purposes.

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment is identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the District's specific financial institutions, qualified mutual funds qualified external investment pools as identified in Note 1 of the summary of significant accounting policies. The investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment is identified above for investments held at year-end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. As of year-end, \$1,695,504 of the District's bank balance of \$1,854,556 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the District's investment policy. Of the above mutual fund investments the District's custodial credit risk exposure cannot be determined because the mutual funds do not consist of specifically identifiable securities.

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

5. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2005 was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2005</u>
Governmental activities				
Nondepreciable capital assets:				
Land	\$ 1,490,560	\$ -	\$ -	\$ 1,490,560
Construction in progress	-	317,930	-	317,930
Total nondepreciable capital assets	<u>1,490,560</u>	<u>317,930</u>	<u>-</u>	<u>1,808,490</u>
Depreciable capital assets:				
Buildings and improvements	89,836,324	7,202,650	551,611	96,487,363
Machinery and equipment	15,475,773	5,313,197	712,435	20,076,535
Vehicles	<u>3,023,809</u>	<u>461,558</u>	<u>605,701</u>	<u>2,879,666</u>
Total depreciable capital assets	<u>108,335,906</u>	<u>12,977,405</u>	<u>1,869,747</u>	<u>119,443,564</u>
Less accumulated depreciation:				
Buildings and improvements	13,886,670	2,028,593	551,144	15,364,119
Machinery and equipment	8,315,833	1,091,673	475,161	8,932,345
Vehicles	<u>1,481,900</u>	<u>192,833</u>	<u>522,324</u>	<u>1,152,409</u>
Total accumulated depreciation	<u>23,684,403</u>	<u>3,313,099</u>	<u>1,548,629</u>	<u>25,448,873</u>
Total capital assets being depreciated, net	<u>84,651,503</u>	<u>9,664,306</u>	<u>321,118</u>	<u>93,994,691</u>
Government activities capital assets, net	<u>\$86,142,063</u>	<u>\$9,982,236</u>	<u>\$321,118</u>	<u>\$95,803,181</u>

For governmental activities, depreciation expense was charged to functions as follows:

Instruction	\$1,724,173
Athletics	140,294
Supporting services	<u>1,448,632</u>
Governmental activities depreciation expense	<u>\$3,313,099</u>

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

6. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances primarily reflect balances utilized to facilitate appropriate cash flow for operations.

Transfers primarily reflect subsidies allocated from the General Fund.

	<u>In</u>	<u>Out</u>
Interfund Transfers		
General Fund	\$460,212	\$ -
Nonmajor Funds:		
Athletics special revenue	-	460,212
1993 bonds	-	848
1992 bonds	848	-
Total	<u>\$461,060</u>	<u>\$461,060</u>

Interfund balance represents the result of interfund transactions for which cash has not yet been transferred between funds.

	<u>Due From</u>	<u>Due To</u>
Interfund Balances		
General Fund	\$114,444	\$30,393
Nonmajor funds:		
Debt Service 1993	-	1,362
Debt Service 1996	-	6,290
Debt Service 1999	-	2,154
Debt Service 2000	4,828	-
Debt Service 2003	4,978	-
Child Care special revenue	-	77,111
Community Services special revenue	-	45,310
Food service special revenue	38,370	-
	<u>\$162,620</u>	<u>\$162,620</u>

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

7. LONG-TERM DEBT

The following is a summary of debt transactions of the School for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Due Within One Year
1992 Capital Appreciation Bond due in amounts ranging from \$549,700 through \$578,254 plus interest at 5.6% - 6.55% through 2010	\$ 3,426,625	\$ -	\$ 562,343	\$ 2,864,282	\$ 571,099
1996 Bonds due in amounts ranging from \$535,000 through \$560,000 plus interest at 4.95% - 6.25% through 2007	1,650,000	-	550,000	1,100,000	560,000
1999 Bonds due in amounts ranging from \$70,000 through \$2,045,000 plus interest at 3.80 - 4.95% through 2022	16,830,000	-	60,000	16,770,000	50,000
2000 Bonds (remaining portion after 2005 Refunding due in amounts ranging from \$1,475,000 plus interest at 4.55% - 4.80% through 2010	46,400,000	-	39,125,000	7,275,000	1,450,000
2003 Refunding Bonds due in amounts ranging from \$160,000 through \$2,430,000 plus interest at 2.00 - 5.25% through 2022	27,900,000	-	160,000	27,740,000	170,000
2005 Refunding Bonds due in amounts ranging from \$100,000 to \$3,385,000 plus interest at 3.00 - 5.00% through 2025	-	38,075,000	-	38,075,000	-
Michigan School Bond Loans	3,814,136	701,681	-	4,515,817	-
Land contracts payable due in amounts of \$24,527 including interest at 8.50% through 2005	46,045	-	46,045	-	-
Installment purchase contracts due in amounts ranging from \$20,000 to \$25,000 plus interest at 6.0% through 2006	89,910	-	45,000	44,910	44,910
Early retirement incentive	913,637	-	342,303	571,334	206,434
Compensated absences	350,110	219,235	-	569,345	
Total long-term debt	\$101,420,463	\$38,995,916	\$40,890,691	99,525,688	\$3,052,443
Less amounts reported in Current liabilities - current portion of long-term debt				(3,052,443)	
Long-term debt - net of current portion				\$96,473,245	

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

Following is a summary of future principal maturities and interest requirements, excluding Michigan School bond loans and compensated absences:

Years ending June 30	Installment Purchases		Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 44,910	\$ 1,347	\$ 2,801,099	\$ 5,353,226
2007	-	-	2,908,254	5,266,884
2008	-	-	2,879,828	5,293,839
2009	-	-	2,837,496	5,331,472
2010	-	-	2,787,605	5,376,677
2011-2015	-	-	23,150,000	17,592,144
2016-2020	-	-	29,250,000	11,375,718
2021-2025	-	-	23,825,000	3,897,873
Thereafter	-	-	3,385,000	169,250
	<u>\$ 44,910</u>	<u>\$ 1,347</u>	<u>\$ 93,824,282</u>	<u>\$ 59,657,083</u>

Compensated absences and the early retirement incentives are expected to be liquidated by the general fund.

Payment of the Michigan School bond loans principal and interest is not currently determinable. Payment from the maximum debt millage of 7 mills must first be utilized to service current outstanding general obligation bonds. Any change in the balance payable to the school bond loan program is due to the excess/deficiency between the maximum millage and required debt service on general obligation bonds.

During fiscal year 2005, Caledonia Community Schools utilized receipts from \$38,075,000 of refunding general obligation bonds and a payment of \$1,022,000 to advance refund certain bonds by placing the proceeds of new bonds and the additional payment in an irrevocable trust to provide for all future debt service payments on the old bonds. The advance refunding resulted in a defeasance of the bonds. As a result, the trust account assets and the liability for the defeased bonds are not included in the Caledonia Community Schools financial statements. At June 30, 2005, \$38,075,000 of bonds outstanding are considered defeased. The current year advance refunding was undertaken to reduce total debt service payments by \$2,697,937, which resulted in an economic gain of \$1,787,202.

8. PUBLIC ENTITY RISK (INSURANCE) POOL – SELF-INSURANCE PLAN

Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2005, the School carried commercial insurance and participated in the West Michigan insurance trust. The School has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

9. RETIREMENT PLAN

Plan Description

The School contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-6000.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The School is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rate was 14.87% for July 1, 2004 to September 30, 2005 of covered payroll. The contribution requirements of plan members and the School are established by Michigan State statute and may be amended only by action of the State Legislature. The School's contributions to MPERS for the years ended June 30, 2005, 2004 and 2003 were \$2,616,363, \$2,348,452, and \$2,265,455, respectively, equal to the required contributions for each year.

Other Post-Employment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1998 with the vested deferred benefits, are eligible for partially State of Michigan paid health benefit coverage (no payment if less than 21 years of service).

CALEDONIA COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

10. CONTINGENCIES

Federal Grant Programs

The School participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the School expects such amounts, if any, not to be material.

11. CAPITAL PROJECTS

The Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of 1351(a) of the Revised School Code.

12. COMMITMENTS

At June 30, 2005, the District has outstanding commitments for construction and maintenance which total approximately \$2,540,000.

13. RESTATEMENTS

The current year financial statement reflect the debt service funds for each bond issue which were previously recorded in a single fund. In addition, the balance in the Child Care fund was restated to properly reflect beginning assets and liabilities of the fund.

* * * * *

Caledonia Community Schools
General Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2005

	<u>Budget</u> <u>Amended</u>	<u>Actual</u>	<u>Variance -</u> <u>Positive</u> <u>(Negative)</u>
Revenue			
Local sources:			
Property taxes	\$ 9,000,244	\$ 9,085,881	\$ 85,637
Earnings on investments	37,000	64,972	27,972
Special education tuition	20,000	53,492	33,492
Special education through ISD	1,258,567	1,259,960	1,393
Miscellaneous	637,489	609,834	(27,655)
Total local sources	<u>10,953,300</u>	<u>11,074,139</u>	<u>120,839</u>
State sources:			
State Aid - unrestricted	17,696,089	17,591,022	(105,067)
At risk	154,499	153,795	(704)
Special education	729,405	729,405	-
Vocational education	28,924	31,132	2,208
Other grant	53,057	53,524	467
Driver education	-	-	-
Total state sources	<u>18,661,974</u>	<u>18,558,878</u>	<u>(103,096)</u>
Federal sources:			
Federal aid received through the state -			
Title I	84,407	98,496	14,089
Title II	82,119	79,047	(3,072)
Special Education	589,574	591,239	1,665
Other	10,831	13,195	2,364
Total revenue from federal sources	<u>766,931</u>	<u>781,977</u>	<u>15,046</u>
Total revenue	<u>30,382,205</u>	<u>30,414,994</u>	<u>32,789</u>

Caledonia Community Schools
General Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual - Continued
For the Year Ended June 30, 2005

	Budget Amended	Actual	Variance - Positive (Negative)
Expenditures			
Instruction:			
Basic programs			
Elementary	\$ 7,146,634	\$ 7,095,164	\$ 51,470
Middle School	3,842,515	3,872,209	(29,694)
High School	4,006,567	4,063,616	(57,049)
Total Basic Programs	14,995,716	15,030,989	(35,273)
Added Needs			
Special Education	3,528,325	3,573,854	(45,529)
Compensatory Education	111,861	111,054	807
Vocational Education	295,039	302,355	(7,316)
Total Added Needs	3,935,225	3,987,263	(52,038)
Adult/Continuing Education			
Alternative education	212,655	214,489	(1,834)
Total instruction	19,143,596	19,232,741	(89,145)
Supporting Services			
Pupil Services			
Guidance Services	277,924	249,810	28,114
Health Services	2,717	2,740	(23)
Psychological services	6,577	7,179	(602)
Speech Services	6,862	7,922	(1,060)
Social Work Services	6,503	7,619	(1,116)
Other Pupil Services	146,043	171,432	(25,389)
Total Pupil Services	446,626	446,702	(76)
Instructional Staff			
Improvement of Instruction	21,815	20,703	1,112
Library	322,045	324,684	(2,639)
Supervision and Direction	286,727	282,469	4,258
Total Instructional Staff	630,587	627,856	2,731
General Administration			
General Administration	124,313	138,434	(14,121)
Executive Administration	468,211	478,639	(10,428)
Total General Administration	592,524	617,073	(24,549)
School Administration			
Office of the Principal	2,146,128	2,254,337	(108,209)
Support Services Business			
Fiscal Services	253,689	244,040	9,649
Other Services	244,710	211,594	33,116
Total Support Services Business	498,399	455,634	42,765
Operation and Maintenance	3,861,050	3,806,231	54,819
Pupil Transportation	1,981,987	2,000,863	(18,876)
Central Services			
Technology Services	395,916	386,360	9,556
Staff/Personnel services	386,496	394,992	(8,496)
Other Central Services	5,204	3,441	1,763
Total Central Services	787,616	784,793	2,823
Payments to other schools	254,410	246,698	7,712
Total supporting services	11,199,327	11,240,187	(40,860)

Caledonia Community Schools
General Fund
Schedule of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual - Continued
For the Year Ended June 30, 2005

	<u>Budget Amended</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>
Debt Service			
Interest	\$ 5,000	\$ 4,446	\$ 554
Total debt service	<u>5,000</u>	<u>4,446</u>	<u>554</u>
Total expenditures	<u>30,347,923</u>	<u>30,477,374</u>	<u>(129,451)</u>
Revenue over (under) expenditures	<u>34,282</u>	<u>(62,380)</u>	<u>(96,662)</u>
Other financing sources (uses)			
Transfers out	(449,404)	(460,212)	(10,808)
Sale of Fixed Assets	<u>248,300</u>	<u>245,620</u>	<u>(2,680)</u>
Total other financing sources (uses)	<u>(201,104)</u>	<u>(214,592)</u>	<u>(13,488)</u>
Net changes in fund balance	<u>(166,822)</u>	<u>(276,972)</u>	<u>(110,150)</u>
Fund balance, beginning of year	<u>3,773,829</u>	<u>3,773,829</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,607,007</u>	<u>\$ 3,496,857</u>	<u>\$ (110,150)</u>

Caledonia Community Schools
Combining Balance Sheet
Nonmajor Governmental funds
June 30, 2005

	Special Revenue				
	Food Service	Athletics	Child Care	Community Services	1992 Bonds
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 93,170	\$ 3,272	\$ 125,056	\$ 130,968	\$ 33,855
Due from other funds	38,370	-	-	-	-
Due from other governmental units	40,595	-	12,999	-	-
Inventory	16,699	-	-	-	-
<u>TOTAL ASSETS</u>	<u>\$ 188,834</u>	<u>\$ 3,272</u>	<u>\$ 138,055</u>	<u>\$ 130,968</u>	<u>\$ 33,855</u>
<u>FUND EQUITY</u>					
Liabilities					
Accounts payable	\$ 52,179	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	77,111	45,310	1,362
Deferred revenue	10,903	-	-	63,719	-
Total liabilities	63,082	-	77,111	109,029	1,362
Fund equity					
Fund balances:					
Unreserved, undesignated	125,752	3,272	60,944	21,939	32,493
Total fund equity	125,752	3,272	60,944	21,939	32,493
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$ 188,834</u>	<u>\$ 3,272</u>	<u>\$ 138,055</u>	<u>\$ 130,968</u>	<u>\$ 33,855</u>

Debt service						Total
1993 Bonds	1996 Bonds	1999 Bonds	2000 Bonds	2003 Bonds	2005 Bonds	
\$ -	\$ 18,399	\$ 22,961	\$ 109,642	\$ 43,489	\$ 159,047	\$ 739,859
-	-	-	4,828	4,978	-	48,176
-	-	-	-	-	-	53,594
-	-	-	-	-	-	16,699
<u>\$ -</u>	<u>\$ 18,399</u>	<u>\$ 22,961</u>	<u>\$ 114,470</u>	<u>\$ 48,467</u>	<u>\$ 159,047</u>	<u>\$ 858,328</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,179
-	6,290	2,154	-	-	-	132,227
-	-	-	-	-	-	74,622
<u>-</u>	<u>6,290</u>	<u>2,154</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>259,028</u>
-	12,109	20,807	114,470	48,467	159,047	599,300
-	12,109	20,807	114,470	48,467	159,047	599,300
<u>\$ -</u>	<u>\$ 18,399</u>	<u>\$ 22,961</u>	<u>\$ 114,470</u>	<u>\$ 48,467</u>	<u>\$ 159,047</u>	<u>\$ 858,328</u>

Caledonia Community Schools
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2005

	Special Revenue				1992 Bonds
	Food Service	Athletics	Child Care	Community Services	
Revenue					
Local sources	\$ 916,142	\$ 264,419	\$ 658,457	\$ 223,054	\$ 1,126,297
State sources	42,935	-	-	-	-
Federal sources	213,329	-	-	-	-
Total revenue	<u>1,172,406</u>	<u>264,419</u>	<u>658,457</u>	<u>223,054</u>	<u>1,126,297</u>
Expenditures					
Current:					
Supporting service	-	-	-	-	-
Food service	1,173,586	-	-	-	-
Athletics	-	721,429	-	-	-
Child care	-	-	676,651	-	-
Community services	-	-	-	201,115	-
Debt service					
Payment to refunding escrow	-	-	-	-	-
Principal	-	-	-	-	562,343
Interest	-	-	-	-	709,242
Total expenditures	<u>1,173,586</u>	<u>721,429</u>	<u>676,651</u>	<u>201,115</u>	<u>1,271,585</u>
Revenue over (under) expenditures	<u>(1,180)</u>	<u>(457,010)</u>	<u>(18,194)</u>	<u>21,939</u>	<u>(145,288)</u>
Other financing sources (uses)					
Bond issue	-	-	-	-	145,345
Premium on bond issue	-	-	-	-	-
Transfers in	-	460,212	-	-	848
Payment to refunding escrow	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>460,212</u>	<u>-</u>	<u>-</u>	<u>146,193</u>
Net changes in fund balances	<u>(1,180)</u>	<u>3,202</u>	<u>(18,194)</u>	<u>21,939</u>	<u>905</u>
Fund balance, beginning of year, as restated	<u>126,932</u>	<u>70</u>	<u>79,138</u>	<u>-</u>	<u>31,588</u>
Fund balance, end of year	<u>\$ 125,752</u>	<u>\$ 3,272</u>	<u>\$ 60,944</u>	<u>\$ 21,939</u>	<u>\$ 32,493</u>

Debt service						
1993 Bonds	1996 Bonds	1999 Bonds	2000 Bonds	2003 Bonds	2005 Bonds	Total
\$ 848	\$ 594,787	\$ 759,984	\$ 3,611,942	\$ 1,433,025	\$ 122	\$ 9,589,077
-	-	-	-	-	-	42,935
-	-	-	-	-	-	213,329
848	594,787	759,984	3,611,942	1,433,025	122	9,845,341
-	-	-	-	-	328,227	328,227
-	-	-	-	-	-	1,173,586
-	-	-	-	-	-	721,429
-	-	-	-	-	-	676,651
-	-	-	-	-	-	201,115
-	-	-	1,022,000	-	-	1,022,000
-	550,000	60,000	1,450,000	160,000	-	2,782,343
-	95,825	796,368	1,433,438	1,377,237	-	4,412,110
-	645,825	856,368	3,905,438	1,537,237	328,227	11,317,461
848	(51,038)	(96,384)	(293,496)	(104,212)	(328,105)	(1,472,120)
-	45,848	95,568	303,325	111,595	38,075,000	38,776,681
-	-	-	-	-	1,998,177	1,998,177
-	-	-	-	-	-	461,060
-	-	-	-	-	(39,586,025)	(39,586,025)
(848)	-	-	-	-	-	(848)
(848)	45,848	95,568	303,325	111,595	487,152	1,649,045
-	(5,190)	(816)	9,829	7,383	159,047	176,925
-	17,299	21,623	104,641	41,084	-	422,375
\$ -	\$ 12,109	\$ 20,807	\$ 114,470	\$ 48,467	\$ 159,047	\$ 599,300

Caledonia Community Schools
Food Service Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

	Budget			Variance -
	Original	Amended	Actual	Positive
				(Negative)
Revenue				
Local				
Lunch sales	\$ 914,000	\$ 972,000	\$ 908,888	\$ (63,112)
Other	3,000	7,000	7,254	254
	<u>917,000</u>	<u>979,000</u>	<u>916,142</u>	<u>(62,858)</u>
Total local sources				
State sources	-	-	42,935	42,935
Federal sources	190,000	220,000	213,329	(6,671)
	<u>1,107,000</u>	<u>1,199,000</u>	<u>1,172,406</u>	<u>(26,594)</u>
Total revenue				
Expenditures				
Supporting services	1,105,500	1,191,500	1,173,586	17,914
	<u>1,500</u>	<u>7,500</u>	<u>(1,180)</u>	<u>(8,680)</u>
Net changes in fund balance				
Fund balance, beginning of year	126,932	126,932	126,932	-
	<u>\$ 128,432</u>	<u>\$ 134,432</u>	<u>\$ 125,752</u>	<u>\$ (8,680)</u>
Fund balance, end of year				

Caledonia Community Schools
Athletics Fund
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

	Budget			Variance -
	Original	Amended	Actual	Positive
				(Negative)
Revenues				
Local				
Gate receipts	98,700	\$ 97,130	\$ 88,044	\$ (9,086)
Other	121,000	170,240	176,375	6,135
Total revenues	219,700	267,370	264,419	(2,951)
Expenditures				
Supporting services	652,050	716,774	721,429	(4,655)
Revenue under expenditures	(432,350)	(449,404)	(457,010)	(7,606)
Other financing sources				
Transfers in	432,350	449,404	460,212	10,808
Net changes in fund balance	-	-	3,202	3,202
Fund balance, beginning of year	70	70	70	-
Fund balance, end of year	\$ 70	\$ 70	\$ 3,272	\$ 3,202

Caledonia Community Schools
Child Care
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

	Budget			Variance -
	Original	Amended	Actual	Positive
				(Negative)
Revenue				
Local				
Child care	\$ -	\$ 656,035	\$ 658,457	\$ 2,422
Expenditures				
Supporting services	-	683,631	676,651	6,980
Net changes in fund balance	-	(27,596)	(18,194)	9,402
Fund balance, beginning of year	79,138	79,138	79,138	-
Fund balance, end of year	\$ 79,138	\$ 51,542	\$ 60,944	\$ 9,402

Caledonia Community Schools
Community Services
Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

	Budget			Variance -
	Original	Amended	Actual	Positive
				(Negative)
Revenue				
Local				
Other	\$ -	\$ -	\$ 223,054	\$ 223,054
Expenditures				
Supporting services	-	-	201,115	(201,115)
Ne changes in fund balance	-	-	21,939	21,939
Fund balance, beginning of year, as restated	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ 21,939	\$ 21,939



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

September 14, 2005

Board of Education
Caledonia Community Schools
Caledonia, Michigan

We have audited the financial statements of Caledonia Community Schools, Michigan, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Caledonia Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements cause by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Caledonia Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

September 14, 2005

Board of Education
Caledonia Community Schools
Caledonia, Michigan

Compliance

We have audited the compliance of Caledonia Community Schools the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Caledonia Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Caledonia Community Schools' management. Our responsibility is to express an opinion on Caledonia Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Caledonia Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Caledonia Community Schools' compliance with those requirements.

In our opinion, Caledonia Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Caledonia Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Caledonia Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Caledonia Community Schools in a separate letter dated September 14, 2005.

This report is intended solely for the information and use of the Board of Education, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Lehmann Lohman". The signature is written in dark ink and is centered on the page.

CALEDONIA COMMUNITY SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	APPROVED GRANT AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE JULY 1, 2004	CURRENT YEAR CASH RECEIVED	EXPENDITURES		ACCRUED (DEFERRED) REVENUE JUNE 30, 2005
						(MEMO ONLY) PRIOR YEAR(S)	YEAR ENDED JUNE 30, 2005	
Passed through Michigan Department of Education								
U.S. Department of Agriculture								
Child Nutrition Cluster:								
National School Lunch - breakfast	10.553	041970	\$ 1,182	\$ -	\$ 1,182	\$ -	\$ 1,182	\$ -
National School Lunch - breakfast	10.553	051970	17,928	-	17,928	-	17,928	-
			19,110	-	19,110	-	19,110	-
National S/L Section 4 All Lunches	10.555	041950	5,951	-	5,951	-	5,951	-
National S/L Section 4 All Lunches	10.555	051950	51,309	-	51,309	-	51,309	-
National S/L Section 11 Free & Reduced	10.555	041960	8,779	-	8,779	-	8,779	-
National S/L Section 11 Free & Reduced	10.555	051960	86,446	-	86,446	-	86,446	-
			152,485	-	152,485	-	152,485	-
Total Child Nutrition Cluster			171,595	-	171,595	-	171,595	-
Entitlement Commodities	10.550	41050	40,062	(4,483)	38,430	-	40,062	(2,851)
Bonus Commodities	10.550	41050	1,672	-	1,672	-	1,672	-
			41,734	(4,483)	40,102	-	41,734	(2,851)
Total U.S. Department of Agriculture			213,329	(4,483)	211,697	-	213,329	(2,851)
U.S. Department of Education								
Title I, Part A	84.010	041530-0304	98,496	98,496	98,496	98,496	-	-
Title I, Part A	84.010	051530-0405	98,496	-	-	-	98,496	98,496
			196,992	98,496	98,496	98,496	98,496	98,496
Title II	84.367	040520-0304	79,728	79,728	79,728	79,728	-	-
	84.367	050520-0405	79,047	-	-	-	79,047	79,047
			158,775	79,728	79,728	79,728	79,047	79,047
Title V	84.298	04025-0304	2,587	2,587	2,587	2,587	-	-
	84.298	05025-0405	2,084	-	-	-	2,084	2,084
			4,671	2,587	2,587	2,587	2,084	2,084
Technology Literacy Challenge Grant	84.318	044290-0304	2,395	2,395	2,395	2,395	-	-
	84.318	054290-0405	2,503	-	-	-	2,503	2,503
			4,898	2,395	2,395	2,395	2,503	2,503
Total Passed through Michigan Department of Education			578,665	178,723	394,903	183,206	395,459	179,279
Passed through Kent Intermediate School District								
IDEA Flow through	84.027	040450-0304	462,453	294,287	294,287	462,453	-	-
IDEA Flow through	84.027	050450-0405	566,242	-	416,128	-	566,242	150,114
			1,028,695	294,287	710,415	462,453	566,242	150,114
IDEA TMT	84.027A	040480-TMT	625	625	625	625	-	-
IDEA Transition	84.027A	030490-TS	1,666	(667)	-	1,666	-	(667)
IDEA Transition	84.027A	050490-TS	1,666	-	1,666	-	1,666	-
			3,332	(667)	1,666	1,666	1,666	(667)
IDEA Preschool	84.173	040460-0304	17,650	10,595	10,595	17,650	-	-
IDEA Preschool	84.173	050460-0405	23,331	-	13,531	-	23,331	9,800
			40,981	10,595	24,126	17,650	23,331	9,800
Safe and Drug Free Schools	84.186A	05286-0405	10,187	-	-	-	7,131	7,131
Safe and Drug Free Schools	84.186A	042860-0405	1,200	-	-	-	1,200	1,200
			11,387	-	-	-	8,331	8,331
Total U.S. Department of Education			1,450,356	488,046	920,038	665,600	781,700	349,708
U.S. Department of Health and Human Services								
Passed through Kent Intermediate School District								
School based Medicaid	93.778	04-05	277	-	277	-	277	-
Total			\$ 1,663,962	\$ 483,563	\$ 1,132,012	\$ 665,600	\$ 995,306	\$ 346,857

CALEDONIA COMMUNITY SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 – RECEIPTS AND REVENUE

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule of Expenditures of Federal Awards has been arranged to provide information on both actual cash received and the resultant revenue recognized. Accordingly, the effects of accruals of accounts receivable, deferred revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

NOTE 2 – GRANT EXPENDITURES

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grants Section Auditors Report (7120) reconcile with this schedule.

Expenditures are reported on the Schedule of Expenditures of Federal Awards for all active awards. Accordingly, the Schedule presents expenditures for the current year grant which remains active beyond the end of the fiscal year because of the accounts receivable, deferred revenue, or accounts payable items.

CALEDONIA COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2005

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified on Financial Statements

Internal controls over financial reporting:

Material weakness(es) identified?

_____ yes x no

Reportable condition(s) identified not
considered to be material weaknesses?

_____ yes x none reported

Noncompliance material to financial
statements noted?

_____ yes x no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes x no

Reportable condition(s) identified not
considered to be material weaknesses?

_____ yes x none reported

Type of auditor's report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section 510(a)?

_____ yes x no

Identification of Major Program

CFDA Number

Name of Federal Program or Cluster

Special Education Cluster

84.027

84.173

Special Education – Grants to States

Special Education – Preschool Grants

Dollar threshold used to distinguish
between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

 x yes _____ no

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

September 14, 2005

Board of Education
Caledonia Community Schools
Caledonia, Michigan

In planning and performing our audit of the financial statements of Caledonia Community Schools for the year ended June 30, 2005, we considered the District's internal control to determine our auditing procedures for the purpose of expressing an opinion of the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated September 14, 2005 on the financial statements of Caledonia Community Schools.

We will review the status of these comments during our next audit engagement. We have already discussed these comments with various personnel, and we will be pleased to discuss it in further detail at your convenience, perform any additional study of these matters, or to assist management in implementing the recommendations.

Our comments are summarized as follows:

COMMUNITY SERVICES OPERATIONS

During the compilation of the financial statements we noted that the activities of the Community Services Fund were included on the general ledger within the same fund as the student activity accounts. In addition, we noted that the District did not adopt an annual budget for the Community Services Fund. We suggest that the Board adopt an annual budget and separately account for the activities of the Community Services Fund.

POLICIES

During our audit we noted that the district did not have a written policy that provides for sufficient documentation and review of credit card and employee reimbursed transactions. We suggest that the District develop, approve and implement policies for these transactions that provide sufficient internal control to minimize the risk of misstatements.

CREDIT CARD PURCHASES

During our audit we noted credit card expenses in which personal items were purchased on the District's credit card, then subsequently reimbursed to the District. According to the Michigan Department of Treasury, credit cards may be used only for the purchase of goods or services for the official business of the district. We suggest that the District not allow personal purchases on the district credit cards.

CAPITAL ASSET RECORDS

During our audit we noted that the current process for recording, summarizing and depreciating capital assets was not providing sufficient information to efficiently prepare adjusting entries and those schedules of capital assets required within the District's annual financial statements. We suggest that the District consider utilizing an alternative process or software system to maintain capital asset records.

We would like to thank the staff of the District for their assistance and cooperation during the audit. We look forward to working with you on future engagements.

This information is intended solely for the use of the Board of Education and management of Caledonia Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Lohorn